Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Income of Not-for-Profit Entities (AASB 1058 and AASB 15 NFP guidance) – narrow-scope amendments**	**Meeting:**	September 2021 (M183)
Topic:	**Staff analysis of implementation issues**	**Date of this paper:**	23 August 2021
Contact(s):	Carmen Ridley cridley@aasb.gov.au Fridrich Housa fhousa@aasb.gov.au (03) 9617 7618	**Agenda Item:**	5.1
		Project Priority:	Medium
		Decision-Making:	High
		Project Status:	Initial deliberations

Objective of this agenda item

1. The objective of this agenda item is for the Board to:

   (a) **consider** staff analysis and recommendations on implementation issues raised by stakeholders regarding AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*; and

   (b) **decide** on the next steps.

Background and reasons for bringing this agenda item to the Board at this meeting

2. Since the release of AASB 1058 and the related AASB 15 not-for-profit (NFP) Australian implementation guidance, staff have considered a number of implementation issues raised by stakeholders.[1] In response to further stakeholder feedback, staff conducted targeted outreach to gain an understanding of the prevalence of the issues raised in practice.[2]

3. At the June 2021 Board meeting[3] staff presented a range of NFP revenue topics raised by stakeholders and a narrow-scope short-term project was added to the workplan.

4. The objective of the project is to analyse the issues and recommend potential approaches to address the issues in accordance with AASB's Due Process Framework (paras. 7.2.3 and 7.2.4). Potential approaches to address the issues include:

   (a) **Amending pronouncements** – an issue that can be addressed through the amendment to financial reporting requirements (para. 7.3.3 of Due Process Framework) for example to address improvements or clarifications identified (para. 7.11.1 of Due Process Framework) in the form of narrow-scope amendment to the mandatory requirements of AASB 15 (Appendix F *Australian NFP implementation guidance*) and/or AASB 1058.

   Also, existing illustrative examples can be clarified, and new examples added to further illustrate application of the mandatory requirements of the standards for specific fact

1 Staff paper 5.1 Termination for Convenience Clauses November 2020, staff paper 22.1 Staff FAQ on Research Grants September 2019

2 Staff held 23 discussions with stakeholders (preparers and auditors across not-for-profit public and private sectors) either through individual discussions, via emails or in group sessions.

3 Staff paper 16.1 AASB 1058 *Income of Not-for-Profit Entities* Targeted Outreach

patterns. Staff note that the illustrative examples accompanying AASB 15 and AASB 1058 are not integral to these accounting standards. However, staff consider that formal due process, including exposure for comment, should be applied to any amendments to the illustrative examples to further enhance stakeholder engagement and feedback.

(b) **Interpretation** – if the issue is widespread, leading to diversity in the practice and it is not necessary to change or amend an existing pronouncement (para. 8.4.2 of the Due Process Framework). The due process steps for an Interpretation are the same as those for developing a Standard, although typically with shorter timeframes.

(c) **Agenda Decision** - if the Board decides not to add a topic to the agenda, the Board may decide to formally report the decision as a Board Agenda Decision, sometimes called "items not taken onto the agenda" or "agenda rejection statements". The minutes of meetings record the decisions made, and whether or not a formal Board Agenda Decision is issued (para. 7.2.7 of Due Process Framework).

(d) **Other education materials and initiatives** – in line with AASB Educational strategy, educational material contribute to the rigour and consistency of accounting standard application. Such material (staff FAQs, "key facts" documents and webinars) does not have the status of a standard or interpretation and cannot add or change requirements in the mandatory pronouncements. However, it is expected to improve the consistency of application of the pronouncements and may be an effective solution that is feasible to develop in the short term). Whilst educational material may be subject to the AASB Board review in some circumstances, there is no formal public due process required (para. 9.1 of Due Process Framework).

(e) **No action taken** as part of this project because:

(i) the issue identified is not an issue that can be addressed through amendment to financial reporting requirements or educational material; or

(ii) the nature of the issue is beyond the scope and timing of this project (based on the factors listed in Due Process Framework para. 7.2.3, such as importance, urgency and complexity of the issue). In these circumstances the issue is referred to the upcoming post-implementation review of AASB 1058 and AASB 15 NFP guidance.

Staff recommendations based on the assessment of potential alternative options to address identified issues, where appropriate, have been included in the analysis below.

5. This paper provides staff recommendations relating to the following issues:

(a) sufficiently specific criterion;

(b) peppercorn leases cost exemption;

(c) upfront payments;

(d) principles of the standards;

(e) principal vs agency; and

(f) scope of AASB 15.

6. Staff recommendations for the remaining five issues presented to the Board at the June 2021 meeting (Capital grants; Grants received in arrears; Enforceable criteria; Documentation; and Termination of convenience clauses) will be discussed at the November 2021 Board meeting.

Structure of the paper

7. This paper is structured as follows:

(a) Summary of staff recommendations – paragraph 8

(b) Staff analysis of issues identified:

(i) Sufficiently specific criterion – paragraphs **Error! Reference source not found.**–21

(ii) Peppercorn leases cost exemption - paragraphs 22–38

(iii) Upfront payments – paragraphs **Error! Reference source not found.**–45

(iv) Principles of the standards – paragraphs 46–50

(v) Principal vs agency – paragraphs 51–59

(vi) Scope of AASB 15 – paragraphs 60–62

(c) Next steps – paragraphs 63–64

(d) Appendix A: Draft illustrative examples

Summary of staff recommendations

8. Staff recommend the following:

(a) Sufficiently specific guidance –clarification of existing illustrative examples and additional illustrative examples developed through amending pronouncement;

(b) Peppercorn leases cost exemption – add a narrow-scope project onto the work plan to consider concessionary leases accounting for NFP entities to replace the existing temporary accounting policy choice;

(c) Upfront payments – additional examples to further illustrate application the principles of the accounting for upfront fees which do not relate to a distinct performance obligation developed through amending pronouncement;

(d) Principles of the standards – development of educational material (such as webinar and a 'key facts' document) to further explain the principles of the standards;

(e) Principal vs agency – clarification of Illustrative example 3A and development of additional illustrative examples developed through amending pronouncement; and

(f) Confusion about the scope of AASB 15 – development of additional educational material.

Staff analysis

9. Staff sought views on the matters analysed below from the members of the NFP Project Advisory Panel (Panel) at the meeting on Monday 16 August 2021. The opinions and discussions, where relevant, have been included within the analysis of the relevant topic.

10. Overall, the majority of Panel members who expressed views agreed that a number of implementation issues exist in regard to the application of AASB 15 and AASB 1058 by NFP entities and, whilst additional clarity and educational material may be helpful for the existing requirements, many of the issues will need to undergo detailed analysis in the post-implementation review. In particular, Panel members noted that any additional or amended illustrative examples should clearly link to the principles in the standards when demonstrating how the requirements were applied to a particular fact pattern.

11. The panel also noted challenges in separating this narrow-scope project from the upcoming post-implementation review and expectations that AASB is likely to receive significant feedback given the extent of the application difficulties experienced by the sector.

Sufficiently specific criterion

12. AASB 15 (para. F20) states that determining the specificity of the performance obligations is judgemental and takes into account any conditions specified in the arrangement, whether explicit or implicit, regarding the promised goods or services, including conditions regarding the following aspects:

(a) The nature of type of the goods or services;

(b) The cost or value of the goods or services;

(c) The quantity of the goods or services; and

(d) The period over which the goods or services must be transferred.

13. At the June 2021 Board meeting, staff highlighted[4] that stakeholders requested further guidance about the application of the sufficiently specific criterion as well as additional examples providing an indication of when requirements in an agreement meet the definition of sufficiently specific.

14. The majority of Panel members who expressed views on this topic considered that sufficiently specific was the most important issue since there is significant confusion and inconsistent application. Panel members have mixed views about whether additional examples would be able to provide more clarity and several members noted the need to clearly articulate the principles applied to demonstrate how the requirements were applied to a particular fact pattern.

15. Staff note that, since the June 2021 Board meeting, an additional stakeholder has provided feedback that the standards (including guidance added by AASB 2016-8[5]) contain sufficient guidance for the determination of "sufficient specificity" and are concerned that the inclusion of additional illustrative examples may lead to further confusion. If illustrative examples are used by preparers and auditors without a proper understanding of the service (i.e. without proper context), and instead applied for a variety of similar/adjacent services, this can lead to further confusion in determining sufficient specificity.

16. Staff considered this feedback and, on balance, consider that providing additional guidance or educational material would assist in providing clarity in applying the principles in the standard, as well as reducing diversity in practice and costs to preparers.

Options considered

17. With regard to the options noted in paragraph 4, staff considered whether it would be appropriate to propose a narrow-scope amendment to AASB 15. However, staff consider that amendments to the mandatory requirements to address the request for clarification of the principle are more appropriately included as part of the post-implementation review as they will involve a review one of the fundamental principles of the accounting standard. Accordingly, staff consider that an amendment to the mandatory requirements of the standard is outside the scope of this project.

18. To address the apparent inconsistent application noted in the requests from stakeholders for additional guidance to interpret the requirements of the current standard and in keeping with the short-term nature of this project, staff recommend that the consistency of application can be assisted by:

    (a) additional educational material (e.g. a webinar); or

    (b) as an amendment or additions to the existing illustrative examples to illustrate additional fact patterns.

    Staff are of the view that these options could be used in parallel.

Proposed content

19. Staff consider that educational material could focus on the illustration that the application of principle of sufficiently specific is based around the level of discretion which the recipient

4 Staff paper 16.1 AASB 1058 *Income of Not-for-Profit Entities* Targeted Outreach

5 AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* added implementation guidance for not-for-profit entities into AASB 15 to assist not-for-profit entities in applying the Standard.

entity has over how the received funds are spent. Does the agreement specify the goods/services to be provided in return for the funds given or can the entity choose which activities to perform under broad constraints?

20. Staff have included a working draft of examples in Appendix A Section 1 to further illustrate the level of detail in relation to the provision of the goods/services (Example 1), and in relation to funds received for employment of a staff member (Example 2) .

21. Staff will bring the final draft of the additional examples to the November 2021 Board meeting with recommendations seeking Board's approval to expose these examples through public due process if added to existing AASB 15 illustrative examples.

Question for Board members

Q1 Does the Board agree with staff recommendations above that:

(a) additional illustrative examples and other educational material be prepared to help clarify the application of the sufficiently specific criterion; and

(b) the sufficiently specific criterion is considered as part of the post-implementation review of AASB 1058 and AASB 15 NFP guidance to commence in 2022?

If yes, does the Board have any preliminary comments on working draft of Examples 1 and 2 in the Section 1 of Appendix A?

If no, what approach does the Board prefer for this topic?

Peppercorn leases cost exemption

22. AASB 1058 requires an NFP entity to recognise any asset received for significantly below fair value in accordance with applicable accounting standard (i.e. AASB 16 *Leases* in case of leases). In absence of any related amounts such as revenue, financial instrument or a lease liability, the difference between initial carrying amount of an asset over the related amounts is recognised as an income immediately. The AASB has previously provided an optional exemption from this requirement in relation to concessionary leases and allowed entities to elect to measure right-of-use assets arising from concessionary leases at cost. AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities*[6] stated that this was a temporary option, and this has caused uncertainty for NFP entities relating to if or when the temporary exemption will be lifted, and whether the removal of the exemption will be on a prospective or retrospective basis, due to the significance of the impact of this future potential change on the financial statements for these entities.

23. To provide more background information, the example below illustrates the accounting under the temporary option and under the requirements of AASB 1058 without the option:

An NFP entity receives the use of a building for 20 years in return for the payment of $1 per year, the fair value of the use of the building is $10m based on market rent assessments.

AASB 1058 requirement (no use of option)	**Use of temporary option within AASB 1058**
Day 1: Dr: ROU asset $10m Cr: Income $10m	No entries due to immateriality. Additional disclosures required (AASB 15.Aus59.1): • The entity's dependence on concessionary leases
Years 1 – 20:	

6 [AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities*] provided a temporary option for not-for-profit entities to not apply the fair value initial measurement requirements for right-of-use assets arising under leases with significantly below-market terms and conditions principally to enable the entity to further its objectives.

Dr: Depreciation expense. $500k Cr: Accumulated depreciation $500k I.e. income is recorded on Day 1 for the whole of life use of the building. Depreciation expense recorded over the life of the lease.	• The nature and terms of the leases, including: ○ the lease payments ○ the lease term ○ a description of the underlying asset ○ restrictions on the use of the underlying assets specific to the entity.

24. Staff note that the requirements for for-profit entities will give rise to the accounting treatment under the exemption if entities have concessionary leases. However, there is no explicit requirement to disclose any additional information about such leases as is required for NFP entities.

25. The basis of conclusions for AASB 2018-8 provides information regarding the Board's intention on granting of the temporary exemption for concessionary leases. Para. BC10 states that the optional relief will be reassessed when further guidance has been developed to assist not-for-profit entities in fair valuing right-of-use assets and the financial reporting requirements for private sector not-for-profit entities have been finalised. The Board has confirmed this intention at its September 2020 meeting[7].

26. AASB 2018-8.BC10 further notes that the Board will consider whether to provide a permanent option for not-for-profit entities to measure a class of right-of-use assets at initial recognition either at cost or at fair value for those concessionary leases entered into prior to the application date of AASB 16 or for all concessionary leases.

27. The above paragraph suggests that, at the time of issue of AASB 2018-8, the expectation of the Board based on the workplan was that the fair value measurement project and the NFP (private sector) financial reporting framework project would have been completed or nearing completion by now (noting the reference to application date of AASB 16 being mandatory for reporting periods beginning on or after 1 January 2019) and therefore the certainty would have already been provided to NFP entities.

28. Feedback received from stakeholders indicates their concerns relate to if and when the temporary option will be lifted and whether the removal of the temporary option would be applied on a retrospective or prospective basis (i.e. whether existing leases will be grandfathered). If retrospective application was adopted, then the collection of information for the leases which, in many cases, have been in place for a significant period of time would be costly and time consuming, and concerns have been raised about whether the recognition of the income and expenses in differing years would provide more useful information to users than the disclosures currently required.

29. Therefore, this topic has been included in the scope of the project to consider whether there any narrow-scope solution is available to the Board that could reduce uncertainty for stakeholders.

30. In analysing this issue, staff considered there are two elements to the stakeholder concerns:

    (a) uncertainty about the time horizon when the temporary option to recognise the right-of-use asset at cost is available, and

    (b) if the temporary option is removed, whether any requirements to fair value the right-of-use asset arising from concessionary lease would be applied retrospectively or prospectively.

31. The NFP panel members agreed that there was uncertainty about the future of this exemption and some certainty about timing would assist NFPs. A majority of the panel members who

[7] September 2020 Board meeting minutes

expressed views noted that stakeholders have strong appetite to make this exemption permanent.

Options considered

32. Educational material was considered, and staff do not think this would be appropriate since the operation of the temporary exemption is well understood, the stakeholder concerns arise from the uncertainty around the timing and impact of potential removal of the exemption.

33. Any change or removal of the existing accounting policy choice will require amendment of the existing pronouncement, including assessment whether conditions that resulted in the current accounting requirements still exist and assessment of the costs and benefits of any change of the status quo including any retrospective application. Staff assessed such standard-setting activity beyond the scope of this project.

34. In order to address stakeholder concerns, staff consider that Board could:

    (a) articulate that the removal of the temporary exemption would be considered as part of the post implementation review of AASB 1058 and therefore the Board would not reassess this option for at least a further 2–3 years; or

    (b) the Board could choose to add the reassessment of the temporary exemption as a separate project to the workplan which would consider the treatment of concessionary leases for Tier 1 and Tier 2 requirements independently of the NFP financial reporting framework project, and the post-implementation review of AASB 1058.

35. Further, if the Board choose option outlined in paragraph 34(b) above, the Board could, as part of the project plan, communicate when it expects to finalise any amendments that, in accordance with its Due Process Framework (para. 7.9.2), the AASB will normally issue a Standard at least two years before its effective date (e.g. a year before the beginning of the comparative reporting period) to ensure that stakeholders have adequate time to prepare for their implementation.

36. When assessing options in paragraph 34, staff noted that the considerations for NFP financial reporting project are relatively independent of Tier 1 and Tier 2 requirements, especially in light of the Board's tentative decision at its February 2021 meeting that the existing two tiers of reporting requirements (Tier 1 and Tier 2) would continue to be available for NFP private sector entities preparing general purpose financial statements. In regard to the Fair Value Measurement for Not-for-Profit Entities (FVM) project, staff considers that the Board could progress with the assessment of the temporary option and, in case the Board decides to remove the accounting policy choice, it can then decide to defer mandatory application date of the amendment until the FVM project (including guidance on the valuation of right-of-use assets under concessionary leases) is finalised.

37. Alternatively, the requirement to fair value the concessionary leases at initial recognition was introduced by AASB 1058 and therefore it could be more appropriate to reassess the temporary option together with the assessment whether conditions that lead to the requirement to fair value concessionary leases still exist as part of the AASB 1058 post-implementation review.

38. Given the existence of significant feedback and the narrow-scope nature of the issue, on balance, staff recommend adding a narrow-scope project onto the work plan to consider concessionary lease accounting under Tier 1 and Tier 2 requirements for NFP entities.

Question for Board members	
Q2	Does the Board agree with the staff recommendation to add a narrow-scope project onto the work plan to consider concessionary lease accounting under Tier 1 and Tier 2 requirements for NFP entities? If no, what approach does the Board prefer for this topic?

Upfront payments

39. Where revenue of an NFP entity is within the scope of AASB 15 and a non-refundable upfront payment is charged to the customer, then AASB 15 paras. 22–30, B48 –B51 and F20 –F27 require an entity to assess whether the upfront fees relate to the transfer of a separate good or service. If there is no separate transfer of goods or services, then the revenue is recognised over the period of the service provided rather than on receipt of the funds. For example, a golf club which charges a joining fee in the first year of membership may to need to estimate the life of a membership and recognise the joining fee over that life.

40. A number of stakeholders raised concerns over the diversity of practice in accounting for upfront fees by NFP entities, the specificity of the existing staff FAQ (illustrating a specific fact pattern in relation to private school fees) which some entities do not consider applicable since they operate in a different industry, a lack of understanding of the principle of a revenue deferral and why a contract liability exists if the fees are non-refundable.

41. The Panel members commented that any guidance or examples should focus on the principles to help a wider range of entities analogise the specific fact patterns illustrated in the existing examples.

Options considered

42. Staff considered whether standard-setting activity is needed, however the requirements for accounting for upfront fees in AASB 15.B48–B51 are equally applicable to for-profit and not-for-profit entities since it is relevant for the assessment when the criteria for the revenue contract to be in the scope of AASB 15 are met and relate to whether there is a distinct performance obligation relating to the payment of the upfront fee.

43. The stakeholder concerns primarily relate to an understanding of the concepts within the standard and therefore staff consider the most appropriate approach in relation to this issue is additional illustrative examples and other educational material rather than amendments to the mandatory requirements of the standard.

44. The form of educational material is proposed to be; including the topic in a AASB webinar to explain the principles of the standard, and development of a more generic illustrative example (compared to the existing one in the staff FAQs) to enable easier application (by analogy) by wider spectrum of stakeholders and thus enhance consistent application of the requirements of the standard.

Proposed content

45. Staff have included a working draft of the additional example in Appendix A Section 2. Staff will bring the final draft of the additional examples to the November 2021 Board meeting seeking Board's approval to expose this example in public due process if added to existing illustrative examples in AASB 15.

Question for Board members	
Q3	Does the Board agree with the staff recommendation to develop additional illustrative examples and other educational material to explain the principles behind the accounting for upfront fees which do not relate to a distinct performance obligation? If yes, does the Board have any preliminary comments on the working draft example in Section 2 of Appendix A? If no, what approach does the Board prefer for this topic?

Principles of the standards

46. A number of stakeholders reported a lack of understanding of the principles of AASB 1058 and AASB 15, and the interaction between them for NFP entities. In particular, a number of preparers highlighted difficulty in explaining the financial outcomes resulting from the application of these accounting standards to Boards, donors and grant providers; for example, when revenue was recognised on receipt of funds and expenses were recognised in the following financial periods. Feedback indicated that this lack of understanding was causing inconsistency in reporting of revenue and concerns over financial results.

47. The Panel members noted that it would be helpful to be able to refer to a document that explains the purpose of the standard and the outcomes achieved by the standards. In addition, some Panel members noted that many NFPs find it difficult to explain the revenue recognition requirements to non-financial stakeholders.

Options considered

48. The purpose of this project is not to consider the appropriateness of the principles in the standards on NFP revenue and income accounting, and therefore staff do not think that any amendments to the standards in relation to the principles are necessary at this stage.

49. Improving knowledge around the principles of revenue recognition for NFPs could be achieved through educational material. Staff consider a webinar to provide an overview of the principles of the standards and how the illustrative examples in the standards incorporate these principles would assist in understanding of the finance teams.

50. In addition, staff propose to develop additional educational material, for example, a 'key facts' document, similar to those issued for AASB 2020-2, AASB 1060 and AASB 2019-4, which could be used to help non-finance stakeholders understand the principles.

Question for Board members	
Q4	Does the Board agree with the staff recommendation to develop additional educational material? If no, what approach does the Board prefer for this topic?

Principal vs agency

51. There is no specific NFP guidance in Appendix F of AASB 15 in relation to principal vs agency considerations. Stakeholder feedback has indicated there are a number of contracts in place in the NFP sector which are causing confusion and diversity of accounting treatment with respect to whether the revenue should be recorded on a net or gross basis and whether a financial liability should be recognised.

52. A number of stakeholders raised concerns about Illustrative Example 3A regarding whether a financial liability should be recognised if an entity's obligation is to transfer funds to other entities. These concerns have been summarised in June 2021 Board meeting Agenda item 16.1

and the feedback from the Panel members confirmed the need to clarify application of the respective accounting standards resulting in the accounting treatment illustrated in this example.

53. The Panel members noted there are a number of instances where smaller NFP entities work together to apply for a grant which would potentially fall under the principal vs agency issue but are not necessarily being considered. They also agreed there were issues with the Example 3A which indicates that a financial liability exists when in, some stakeholders' views, prime facie it may not meet the definition, but the example doesn't explain why.

<u>Options considered</u>

54. Staff understand there are two components of this issue which have been considered separately in the analysis below:

    (a) Guidance on potential principal vs agent transactions

55. Staff consider this element is an educational activity to raise awareness of some of the common transactions undertaken which may require consideration of whether the NFP entity is acting as a principal or agent in the transaction. This can be explained during the AASB staff webinar and included in a 'key facts' document.

56. These examples could include those examples noted in agenda paper 16.1 at the June 2021 Board meeting. This is, NDIS scheme and consortium grants, and other relevant examples such as where a national body receives funds solely for the purpose of transferring funds to the state bodies.

Question for Board members	
Q5	Does the Board agree with the staff recommendation to develop further examples illustrating additional scenarios illustrating principal vs agency considerations in the AASB staff educational material? If no, what approach does the Board prefer for this topic?

(b) Recognition of financial liability (in particular clarification of Illustrative Example 3A in AASB 1058.

57. Staff considered options outlined in paragraph 4 and recommend amending Illustrative Example 3A to clarify the analysis and accounting treatment as follows:

- providing further details how the accounting standards have been applied to support the recognition of a financial liability under the illustrated set of circumstances and clarification of the measurement of such liability; and
- providing a contrasting example where no financial liability is recognised.

58. Staff propose to focus the amendment of the illustrative examples on the circumstances to be considered when assessing whether financial liability arises in accordance with AASB 9 and AASB 132.

59. Staff have assessed other options outlined in paragraph 4:

    (a) Other type of educational material – this type of material and activity is not likely to improve consistency of application as the source of stakeholder's concern is an illustrative example accompanying the standard albeit not its integral part and additional educational material outside the standard would like only add to the confusion.

    (b) No action taken – given the relatively narrow-scope nature of the amendment, the number of stakeholders, and noting the diversity and confusion when applying this illustrative example, staff consider it is appropriate that an action is taken as part of this project.

Question for Board members	
Q6	Does the Board agree with the staff recommendation to amend Illustrative Example 3A in AASB 1058? If no, what approach does the Board prefer for this topic?

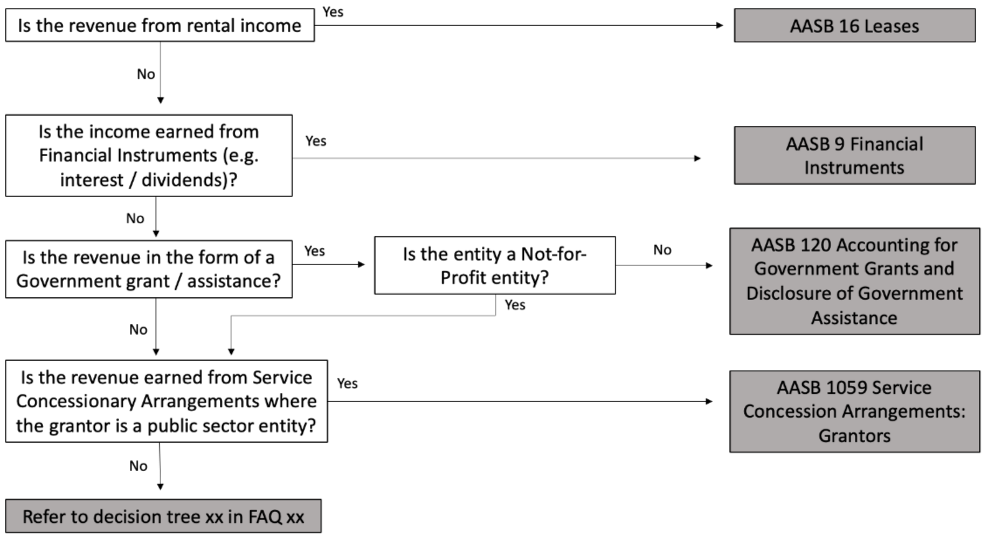
Confusion about the scope of AASB 15

60. Some stakeholders expressed confusion about the scope of AASB 15 when determining the relevant standard to account for different types of income.

Options considered

61. Staff consider the only relevant option is to add guidance to the current staff FAQ regarding appropriate accounting standards for the different income types, to provide more clarity, particularly for entities who may not have extensive technical accounting knowledge and resources.

62. The flowchart produced below could be added to existing FAQ 4 as a precursor to the existing flowchart for determining whether AASB 15 or AASB 1058 is the relevant standard if the revenue is within scope.



Question for Board members	
Q7	Does the Board agree with staff recommendations to amend existing educational material to add the flowchart in paragraph 62 to the existing staff FAQ to provide additional guidance to entities? If no, what approach does the Board prefer for this topic?

Next steps

63. Subject to the Board's decisions at the September 2021 meeting, staff will analyse the remainder of the identified issues listed in paragraph 6 to provide recommendations to the Board in relation to the content and form of options available to address each of them at the November 2021 Board meeting.

64. Also, subject to the Board's decisions at the September 2021 meeting, staff will bring a working draft of the amending pronouncement Exposure Draft for the matters where the Board agreed to take standard-setting action at this meeting for Board's noting at the November 2021

meeting. Staff plan to finalise the Exposure Draft by the Board's subcommittee after the Board's 2021 November meeting to enable exposing for public comment late 2021/early 2022, with the comment period to be determined by the Board at the November 2021 meeting.

Question for Board members
Q8 Does the Board agree with the proposed next steps?

APPENDIX A: Draft illustrative examples

Section 1 Sufficiently specific criterion

Example 1:

A not-for-profit entity has received funding under an enforceable agreement, six scenarios for presenting the requirements of the agreement are set out below with the staff views on when the performance obligations would meet the sufficiently specific criterion.

Obligations of the agreement	Sufficiently specific using the factors in AASB 15.F20?	Revenue recognition
Spend the money in accordance with your objectives	No, there is no detail around the type or quantity of services, the recipients or the time frame.	On receipt of funds
Provide counselling services.	No, there is no detail around the quantity of services, the recipients, or the time frame	
Provide counselling services over the next 24 months.	No, there is a specified time period but no detail about the recipient and quantity.	
Provide counselling services in Melbourne for the next 24 months.	Yes – the agreement specifies the service to be provided, the location and the time frame[8]	[Staff to complete the analysis based on feedback]
Provide counselling services in relation to mental health in Melbourne over the next 24 months.	Yes – the agreement specifies the type of service, the location, and the time frame[9].	
Provide counselling services to adolescents affected by mental health issues in Melbourne over the next 24 months.	Yes – entity has little discretion over the type, quantity, recipient, and location of services.	
Provide monthly counselling sessions to adolescents affected by mental health issues in Melbourne over the next 24 months	Yes – entity has little discretion over the type, quantity, recipient, and location of services.[10]	
Provide 400 counselling sessions to adolescents affected by mental health issues in Melbourne over the next 24 months.	Yes – entity has little discretion over the type, quantity, recipient, and location of services.	After each counselling session proportion of total funding (i.e. 1/400 of the total funding per session)

The number of factors for consideration is significant, and specific terms and conditions of the agreement as well as the structure and objectives of the entity should be documented, for example:

8 Similar to IASB 15 Illustrative Example 25 re: provision of asset management services for five years.

9 Similar to IASB 15 Illustrative Example 18 re: access to health club for 24 months.

10 Similar to IASB 15 Illustrative Example 13 re: monthly payroll processing services.

- If the objective of the NFP is geographically or otherwise limited, then does the geographical limitation provide more specificity and should the outcome of sufficiently specific differ for a more geographically diverse NFP entity?

Example 2:

An entity who provides mentoring services for parents returning to work through sessions with social workers receives funding (up to $250,000) under an enforceable agreement to employ two additional staff members to allow them to increase services for the next 12 months.

The funding is received on 28 June 20XX and is intended for use in the 20XY–20XZ financial year.

Three scenarios are considered with staff's view on whether the conditions meet the sufficiently specific criteria:

Conditions specified in the agreement	Sufficiently specific using the factors in AASB 15.F20?
No specification on the staff members to be employed, i.e. entity discretion	No, there is no specificity around the goods or services to be provided for the funding and the funding is akin to operational funding. The funding does not relate to the transfer of goods or services to a customer.
Staff members to be employed are 1.5 qualified social workers and 0.5 admin staff	[Staff to complete the analysis based on feedback]
Staff members to be employed are 2 qualified social workers	

Section 2 Upfront fees

Example 1:

Many NFP entities charge up-front fees to customers/members, etc. as part of the goods and services offered. These fees may include joining fees at golf clubs and membership bodies, upfront enrolment fees at schools (refer to NFP Staff FAQ 11) and other establishments, or set-up fees where the fee is paid once and the customer can renew the contract each year without paying an additional fee.

Where the goods or services to which the upfront fee is in the scope of AASB 15, then the principle of revenue recognition of the upfront fee depends on whether the payment of the fee has caused a transfer of distinct goods or services to the customer (i.e. does it meet the definition of a performance obligation). Activities performed by the entity are not relevant to whether there is a performance obligation, rather it relates to transfer of control of goods or services to a customer.

The analysis below sets out the process to be followed in determining the relevant accounting treatment for upfront fees charged by NFP entities. Note that the process does not specifically discuss any particular fee and, therefore, the relevant facts and circumstances should be applied to each entity's upfront fees.

Note also that the term customer has been used in the analysis below, however this is intended to capture all counterparties to the agreement (e.g. members, parents, etc.).

Analysis – Is the contract within the scope of AASB 15 Revenue from Contracts with Customers

The entity first considers whether the agreement with the customer is within the scope of AASB 15, by referring to AASB 15 paras. 9–21 and F5–F19 to determine whether there is a contract with a customer:

- Is there a customer who has promised consideration in exchange for goods or services from the entity? (AASB 15.9, F6–F7)

- Is there an agreement (e.g. an application form or other form of contract), written or implied? (AASB 15.10, F8–F9)
- Does the agreement create enforceable rights and obligations where the customer could either enforce the agreement or be provided remedy under Australian law if the promised service was not delivered? (AASB 15.10, F10–F18).

In many cases, where there will be an ongoing relationship with the customer following payment of the upfront fee (e.g. annual fees to access a service), the revenue will be in the scope of AASB 15.

Note: if multiple agreements are in place, (e.g. agreement for the joining fee and a separate agreement for the annual membership fee), the guidance from AASB 15.17 should be considered in relation to aggregation of these contracts for accounting purposes.

What are the performance obligations in the contract, and is the non-refundable upfront fee one of them?

The entity considers the guidance on:

- accounting for non-refundable fees in AASB 15.B48–B51; and
- identifying performance obligations in AASB 15.22–30 and AASB 15.F20–F27

to determine whether the upfront fee relates to the transfer of a good or service separate to the provision of services in the future.

In performing this analysis, the entity considers that performance obligations do not include activities that an entity must undertake to fulfil a contract (e.g. setting up a customer on the system, printing membership cards, etc.) unless those activities transfer a good or service to the customer (AASB 15.25).

The non-refundable fee might cover internal administrative activities which enable the entity to provide future services to the customer, but these activities do not transfer a promised good or service to the customer separate from the provision of future services and are therefore not a separate performance obligation (AASB 15.B49).

If this is the case, or likely to be so, the entity concludes that the non-refundable upfront fee does not represent a distinct performance obligation (AASB 15.25) but is, in substance, an advance payment for future services

How is the revenue for the upfront fee recognised?

The upfront fee is recognised as revenue as these future services are provided (i.e. the performance obligation is satisfied).

If the entity has charged the non-refundable fee in part as compensation for costs incurred in setting up a contract (or other administration tasks, as discussed) and those set up activities are not a separate performance obligation, they should be disregarded when measuring progress towards completion of the services (AASB 15.B51).

The revenue recognition period will extend beyond the initial contractual period if the entity grants the customer the option to renew the contract and that option provides the customer with a material right (i.e. no requirement to pay the joining fee on renewal) (AASB 15.B49).

Annual fees charged to access the services will be recognised as revenue in the period of the service.